



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

January 7, 2004

Financial Audit Management Report

H. S. McMillan, Director
Mississippi Department of Rehabilitation Services
1281 Highway 51 North
Madison, Mississippi 39110

Dear Mr. McMillan:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Rehabilitation Services for the year ended June 30, 2003. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis, CGFM, Amy Buller, CPA, Tangela Beddingfield, and Mary Jo Milner.

The fieldwork for audit procedures and tests was completed on October 3, 2003. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Rehabilitation Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Rehabilitation Services are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Rehabilitation Services throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

February 19, 2004

Single Audit Management Report

H. S. McMillan, Director
Mississippi Department of Rehabilitation Services
1281 Highway 51 North
Madison, Mississippi 39110

Dear Mr. McMillan:

Enclosed for your review are the single audit finding and other audit finding for the Mississippi Department of Rehabilitation Services for the Fiscal Year 2003. In these findings, the Auditor's Office recommends the Mississippi Department of Rehabilitation Services:

Single Audit Finding

1. Strengthen internal controls over reporting; and

Other Audit Finding

2. Maintain adequate supporting documentation for federal reports.

Please review the recommendations and submit a plan to implement them by March 11, 2004. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mississippi Department of Rehabilitation Services
February 19, 2004
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I hope you find our recommendations enable the Mississippi Department of Rehabilitation Services to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Rehabilitation Services throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

SINGLE AUDIT FINDING

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of selected federal programs of the Mississippi Department of Rehabilitation Services for the year ended June 30, 2003. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis, CGFM, Amy Buller, CPA, Lucreta Walker, Tangela Beddingfield, Jessica Short, and Mary Jo Milner.

The fieldwork for audit procedures and tests was completed on January 30, 2004. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

The management of the Mississippi Department of Rehabilitation Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

In addition, we noted a matter involving the internal control over compliance that requires the attention of management that we have reported on the attached document "Other Audit Finding".

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary. Based on audit procedures and tests performed, we are pleased to report that no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

REPORTABLE CONDITION

CFDA/Finding Number

Finding and Recommendation

REPORTING

Reportable Condition

84.126

Rehabilitation Services – Vocational Rehabilitation Grants to States

Federal Award Number and Year: H126A020034, 2002

03-13

Internal Controls over Reporting Should Be Strengthened

Finding:

Federal regulations (Policy Directive RSA-PD-00-09) require each State Vocational Rehabilitation (VR) Agency that has expended funds in providing VR services to individuals with disabilities under the Section 110 and Title VI-B programs of the Rehabilitation Act of 1973, as amended, submit an Annual Vocational Rehabilitation Program/Cost Report (RSA-2) to the United States Department of Education - Rehabilitation Services Administration for each fiscal year (October 1 through September 30).

The RSA-2 report must reflect all expenditures made during the federal fiscal year covered by the report from all federal, state and other rehabilitation funds, including program income. For the purpose of this report, expenditures include obligations that were incurred during the reporting period but not yet liquidated (paid) as of the close of the period.

Our audit testwork at the Mississippi Department of Rehabilitation Services - Offices of Vocational Rehabilitation and Vocational Rehabilitation for the Blind included a review of the report and supporting documentation for the federal fiscal year ended September 30, 2002. The following weaknesses were noted:

- The amount reported for expenditures was overstated by \$5,682,692 due to the calculation of unliquidated obligations being incorrect.
- Amounts reported on Schedule II of the report for "Total Title VI-B Funds Expended on Services" did not agree to the amounts reported for the same expenditures on Schedule IV of the report by \$82,437.

Good internal controls require amounts reported on the annual RSA-2 report be in compliance with the instructions for the report and be supported by the accounting records.

Recommendation:

We recommend the Mississippi Department of Rehabilitation Services - Offices of Vocational Rehabilitation and Vocational Rehabilitation for the Blind strengthen controls over reporting to ensure amounts reported on the RSA-2 report agree to the accounting records. We further recommend schedules be checked for clerical accuracy prior to submission to United States Department of Education - Rehabilitation Services Administration.

OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi Department of Rehabilitation Services for the year ended June 30, 2003, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. A matter which requires the attention of management was noted. This matter which does not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involves an internal control weakness.

IMMATERIAL WEAKNESS IN INTERNAL CONTROL

CFDA/Finding Number	Finding and Recommendation
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REPORTING

Immaterial Weakness

96.001	Social Security – Disability Insurance
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Federal Award Number and Year: 040304MSDI00, 2003

Oth-6	<u>Adequate Supporting Documentation Should Be Maintained for Federal Reports</u>
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Finding:

Federal regulations (POMS DI 39506.800) require the submission of the SSA-4514, *Time Report of Personnel Services* quarterly report, to the Social Security Administration for the Social Security – Disability Insurance Program. This report accounts for employee time charged to the program.

Our audit testwork at the Mississippi Department of Rehabilitation Services – Office of Disability Determination Services included a review of this report and supporting documentation for the quarter ended June 30, 2003. We noted there was no supporting documentation, such as a current time study, to support the number of cases reviewed per hour on average by contract physicians. This number is used to convert the number of cases reviewed to man-hours for contract physicians.

Good internal controls require supporting documentation be maintained for review of the quarterly reports. Without adequate supporting documentation, there is not a clear audit trail to ensure the accuracy of the quarterly reports. Agency personnel indicated that a time study has been performed; however, it was performed after the end of the fiscal year being audited.

Recommendation:

We recommend the Mississippi Department of Rehabilitation Services – Office of Disability Services ensure that adequate documentation, such as a current time study, is maintained to support the average number of cases reviewed per hour by the contract physicians used in the federal reports.

End of Report



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

July 8, 2004

Limited Internal Control and Compliance Review Management Report

H.S. McMillian, Director
Mississippi Department of Rehabilitation Services
1281 Highway 51 North
Madison, Mississippi 39110

Dear Mr. McMillian:

Enclosed for your review are the limited internal control and compliance review findings for the Mississippi Department of Rehabilitation Services for the Fiscal Year 2003. In these findings, the Auditor's Office recommends the Mississippi Department of Rehabilitation Services:

1. Strengthen internal controls over bank accounts;
2. Report property additions timely; and
3. Submit payments to vendors in accordance with state law.

Please review the recommendations and submit a plan to implement them by July 29, 2004. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Rehabilitation Services to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Rehabilitation Services throughout the review. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Department of Rehabilitation Services for the year ended June 30, 2003. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis, CSM, Lucreta Walker, Tangel Beddingfield, and Yulunda Wesley.

The fieldwork for review procedures and tests was completed on March 15, 2004. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

In performing our review, we noted a matter involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **IMMATERIAL WEAKNESS IN INTERNAL CONTROL** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS**.

IMMATERIAL WEAKNESS IN INTERNAL CONTROL

Controls over Bank Accounts Should Be Strengthened

Finding:

During our bank account testwork at the Mississippi Department of Rehabilitation Services, we noted the following:

- Five items from the Vocational Rehabilitation for the Blind bank account totaling \$940 out of ten items tested in which receipts for meals for clients were not obtained and maintained to provide adequate supporting documentation for the disbursements made.
- Two items out of ten items tested from the Vocational Rehabilitation petty cash account totaling \$919 in which receipts for registration fees and a client outing were not obtained and maintained to provide adequate supporting documentation for the disbursements made.
- One instance out of 12 months tested in which the original bank statement and signed copy of bank reconciliation were not found for the Business Enterprise Program bank account.
- For one of four quarters tested, we could not verify the reconciliation to the Collateral Sufficiency Analysis report prepared by the State Treasury was performed due to the report not being maintained by the agency.
- Three checks totaling \$1,232 have remained outstanding for a period of one year or more on the Business Enterprise Program bank account.

Good internal controls require original bank account records and supporting documentation be obtained and maintained for audit purposes and that reconciling items be researched and cleared in a timely manner. In addition, good internal controls require reconciliations be performed and maintained between the Collateral Sufficiency Analysis report and the agency records. The lack of information and records hinders the performance of a proper and efficient audit.

Recommendation:

We recommend the Mississippi Department of Rehabilitation Services strengthen controls to ensure supporting documentation is maintained, organized and readily accessible for audit purposes. Receipts for client meals and client outings should be maintained. Any unspent funds should be deposited into the appropriate bank account. We further recommend the agency review the Collateral Sufficiency Analysis reports to ensure agreement with agency records. A copy of these reports should be maintained on file at the agency.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Property Additions Should Be Reported Timely

Finding:

Testwork performed on 20 additions to the property inventory at the Mississippi Department of Rehabilitation Services revealed the following:

- Three instances totaling \$3,146 in which items purchased in April and May 2003 were not reported to the Property Audit Division of the Office of the State Auditor (State Property Office) as additions until July 2003.
- One instance totaling \$1,017 in which an item purchased in January 2003 had not been reported to the State Property Office as of the date of audit fieldwork.

Section 29-9-11, Miss. Code Ann. (1972), states that additions and/or deletions to an agency's inventory for the prior month shall be reported to the State Property Office on or before the fifteenth day of the following month. Failure to report property additions timely may result in the misstatement of the agency's financial statements.

Recommendation:

We recommend the Mississippi Department of Rehabilitation Services implement procedures to ensure all additions to the property inventory are submitted timely to the Property Audit Division of the Office of the State Auditor in compliance with state law.

Payments to Vendors Should Be Remitted in Accordance with State Law

During our contractual services and capital outlay testwork at the Mississippi Department of Rehabilitation Services, we noted three instances totaling \$35,152 out of 50 items tested, or 6 percent, in which the agency failed to remit payment to the vendor within 45 days after receipt of the goods and/or services and the invoice. These payments were submitted between three and five months after the receipt of the goods and/or services and the invoice. Section 31-7-305, Miss. Code Ann. (1972), states payments shall be made within 45 days of receipt of the invoice and receipt of the goods and services. Failure to remit payment within 45 days could result in additional expenses being incurred by the agency through finance charges.

Recommendation:

We recommend the Mississippi Department of Rehabilitation Services closely monitor unpaid invoices to ensure payment is remitted within 45 days as required by state law.